Target costs = Engineering costs + Manufacturing costs
+ Material costs + General & administration costs

Engineering / Manufacturing costs = labor costs + overheads costs
+ (labor cost + overheads costs)(contingency factor)

Total material costs = Material costs + Material costs × Contingency factor

Target costs = [1500×5×(1.5+1)(0.05+1)
+ 2000×3×(2+1)(0.07+1)
+ 5000×(0.10+1)] (0.12+1) = $49 781

Overrun = Incurred costs − Target costs
الزيادة الفعلية — التكلفة

1.

Item	Value
Target costs	$ 49 781
Target profit	$ 4 978 (=0.1× target costs)
Ceiling costs	$ 59 737 (=1.2× target costs)
Cost sharing (Above target costs)	75 − 25
Cost sharing (Below target costs)	80 − 20

Incurred costs = $50 000 > $49 781
Overrun = 50 000 − 49 781 = $ 219

1. Continue:

S.	Item	Value
1	Target costs	$ 49 781
2	Plus 75% of $219 (Portion of overrun to customer)	$ 164 (= 0.75 x $219)
3	Total reimbursement costs	$ 49 945 (= $49 781 + $164) ← ceiling costs
4	Target profit	$ 4978
5	Less 25% of 219 (Portion of overrun to contractor)	$ 55 (= 0.25 x $219)
6	Total profit	$ 4923 (= $4978 - $55)
7	Total reimbursement	$54 868

Total reimbursement = $54 868

2. 35 000 < 49 781 ⇒ Saving = 49 781 - 35 000 = 14 781

S		
1	Target cost	$ 49 781
2	Less 80% of $14 781 (Portion of customer saving)	$ 11 825
3	Total reimbursement costs	$ 37 956 (= 49 781 - 11825) ← ceiling costs
4	Target profit	$ 4978
5	Plus 20% of $14 781 (Portion of contractor saving)	$ 2956
6	Total profit	$ 7934
7	Total reimbursement	$ 45 890

3- $75 000 > $49 781 ⇒ Overrun = $25 219

S	Item	Value
1	Target Costs	$49 781
2	Plus 75% of $25 219 (portion of overrun to customer)	$18 914
3	Total reimbursement (Costs calculated	$68 695 -> Ceiling costs
3'	Total reimbursement (cost real	$59 737 (= Ceiling costs)
4-	Target profit	$4978
5-	Less 25% of $25 219 (portion of overrun to contract)	$6305
6-	Total profit	$-1327 ⇒ Loss
7-	Total reimbursement	$58410

The Contractor due to increase over target losses from 5) profit

The contractor due to saving, increases his profit

The contractor due to over increases, losses losses by $ - 1327